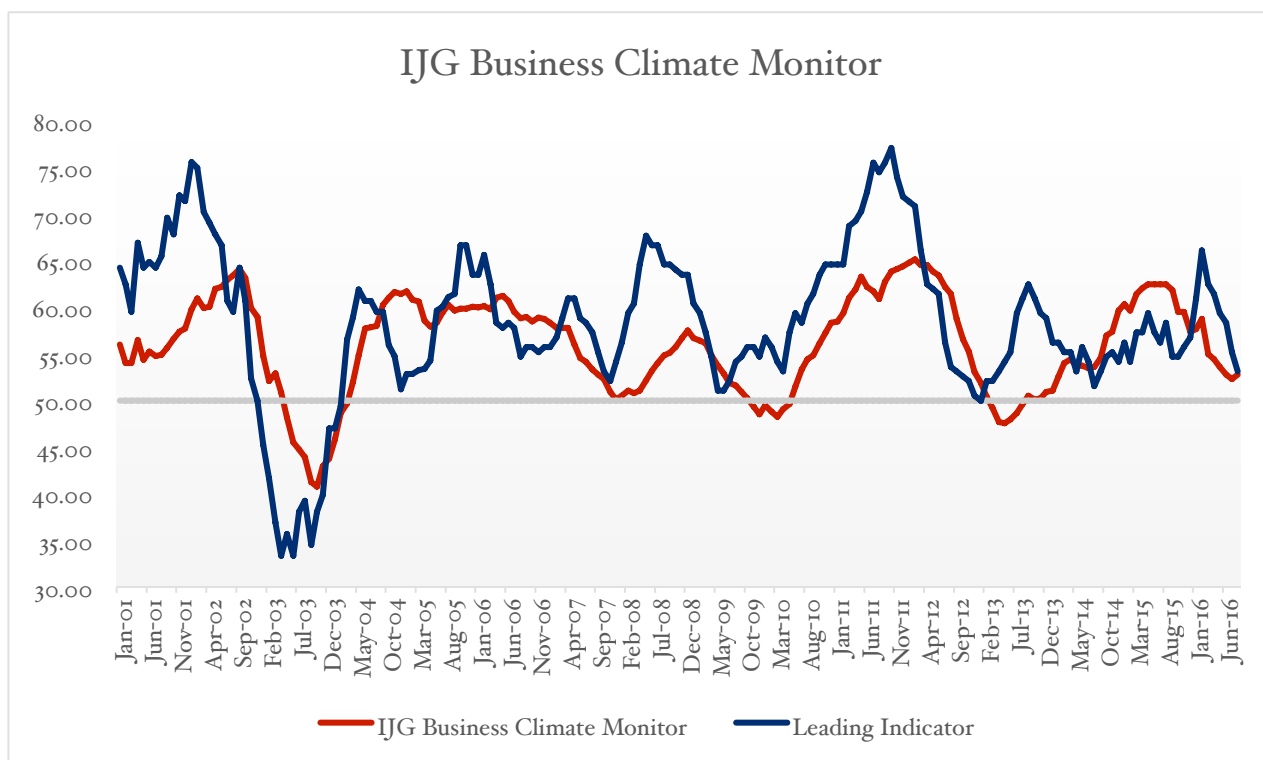




BUSINESS CLIMATE MONITOR **AUGUST 2016**

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** improved by 0.54 points in August 2016, to a level of 52.8 points. This is the first upwards move on the index since February 2016. Of the 31 indicators measured by the index, 11 showed deterioration over the past year while the remaining 20 indicators showed improvement.

As was the case in July, many of the core indicators in the index continue to point towards a contraction in activity in the local economy in 2016 when compared to 2015. In terms of mining activity, the first eight months of 2016 saw notably less gold, diamond and copper concentrate produced than in the same period in 2015, while uranium and copper cathode production expanded. Commodity prices remain a major concern for Namibia, as commodity sales represent the source of approximately 50 percent of all foreign currency earnings for the country. Since January, the uranium price in Namibia Dollars has almost halved, falling from N\$550/lb (US\$ 34.65/lb) to just N\$307/lb (US\$22.4/lb). Similarly, the copper and diamond prices in Namibia Dollars have fallen 16 percent and 14 percent, respectively, since the start of the year. Gold prices, however, have improved by 10 percent, driven by a 24 percent improvement in the US dollar price of gold that has more than offset the 11 percent strengthening seen in the Namibia Dollar vis-à-vis the US dollar.

Generally, more of the indicators are starting to show year-on-year improvements. This is not to say, however, that the current business climate is positive, but perhaps that it has stopped deteriorating. Going forward, the reaction of Government to current funding challenges will be the largest determinant of the business climate for the rest of 2016 and into 2017.

Note on methodology

The index encompasses 30 indicators, selected from available high frequency data. These are split into five broad categories, namely: policy environment, primary sector output, secondary and tertiary output, external account and pricing. Given the available high frequency data, these categories provide the best available high frequency insight into developments in the local economy and business cycle.

The raw data are adjusted and transformed for seasonality, inflation and exchange rate as appropriate. In addition, the data are adjusted to factor in whether higher or lower values are desirable (for example higher government spending is positive for the business climate, while higher interest rates are negative).

In order to develop a stationary indicator (i.e. not trending up or down), and to show dispersion from a mean value, the common PMI (Purchasing Managers' Index) approach has been slightly adjusted and utilised. This approach sees transformed indicators that are contracting over a 12-month period given a value of 0, while unchanged indicators are valued at 50 and expanding indicators valued at 100. The average value across the 30 indicators is then taken, with an overall value of over 50 implying expansion in the majority of indicators, while a value below 50 shows contraction in the majority of indicators. In addition to the level, the trend of the BCM line illustrates whether indicators are generally improving or deteriorating. A 12 period moving average is then used to smooth the indicator and ensure that short term volatility or base effects do not provide a misleading view of the local business climate.

When compared to the historic business cycles, this approach gives very a very satisfactory high-frequency view of the state of the local business climate.

Indicators

Indicator	Higher Value Better	Transformation	Leading
Policy Environment			
Prime Rate	No	None	Yes
Monthly Government Spending (N\$)	Yes	Deflated	Yes
Primary Sector Output			
Livestock marketed (#)	Yes	Seasonal Adjustment	No
Copper Production (tons)	Yes	None	No
Gold Production (kg)	Yes	None	No
Diamond Production (000' carats)	Yes	None	No
Uranium Production (short tons)	Yes	None	No
Secondary and Tertiary Output			
Building Plans Completed (N\$)	Yes	Deflated, Seasonal Adjustment	No
Building Plans Approved (N\$)	Yes	Deflated, Seasonal Adjustment	Yes
Tourism Arrivals (#)	Yes	Seasonal Adjustment	No
Passenger Vehicle Sales (#)	Yes	Seasonal Adjustment	No

Commercial Vehicle Sales (#)	Yes	Seasonal Adjustment	No
Credit Extended to Individuals (N\$)	Yes	Deflated, Seasonal Adjustment	No
Credit Extended to Businesses (N\$)	Yes	Deflated, Seasonal Adjustment	Yes
CC Registrations (#)	Yes	Seasonal Adjustment	Yes
Company Registrations (#)	Yes	Seasonal Adjustment	Yes
Defensive Name Registrations (#)	Yes	Seasonal Adjustment	Yes
External Account			
Imports (N\$)	No	Deflated, Seasonal Adjustment	Yes
Exports (N\$)	Yes	Deflated, Seasonal Adjustment	No
EURZAR Exchange rate	Yes	None	Yes
USDZAR Currency Exchange rate	Yes	None	Yes
Prices			
Beef Price (N\$)	Yes	Deflated, Seasonal Adjustment	No
Lamb Price (N\$)	Yes	Deflated, Seasonal Adjustment	No
Copper Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Gold Spot(N\$)	Yes	Converted to ZAR, Deflated	Yes
Diamond Rough Price (Index)	Yes	Converted to ZAR, Deflated	Yes
Uranium Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Brent Crude Oil (N\$)	No	Converted to ZAR, Deflated	Yes
Petrol (95 Octane) (N\$)	No	Deflated	No
Diesel (500 ppm) (N\$)	No	Deflated	No